

Comments for the Record
United States House of Representatives
Committee on Ways and Means
Hearing on U.S.-China Trade
Wednesday, February 27, 2019, 10:00 A.M.

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Chairman Neal and Ranking Member Brady, thank you for the opportunity to submit these comments for the record to the Committee on this topic. As usual, we will preface our comments with our comprehensive four-part approach, which will provide context for our comments.

- A Value Added Tax (VAT) to fund domestic military spending and domestic discretionary spending with a rate between 10% and 13%, which makes sure very American pays something, as well as any carbon tax.
- Personal income surtaxes on joint and widowed filers with net annual incomes of \$100,000 and single filers earning \$50,000 per year to fund net interest payments, debt retirement and overseas and strategic military spending and other international spending, with graduated rates between 5% and 25%.
- Employee contributions to Old Age and Survivors Insurance (OASI) with a lower income cap, which allows for lower payment levels to wealthier retirees without making bend points more progressive.
- A VAT-like Net Business Receipts Tax (NBRT), which is essentially a subtraction VAT with additional tax expenditures for family support, health care and the private delivery of governmental services, to fund entitlement spending and replace income tax filing for most people (including people who file without paying), the corporate income tax, business tax filing through individual income taxes and the employer contribution to OASI, all payroll taxes for hospital insurance, disability insurance, unemployment insurance and survivors under age 60.

China is sitting on a time bomb. Their difficulties arise from their treatment of domestic migrants from rural areas working in Chinese factories. Eventually, these migrants will object to the locality system imposed upon them and demand the same level of pay, benefits and consumerism as is earned by those designated as urban. When this occurs, the valuation of the Yuan will occur, assuming that the Chinese Communist Party survives. We do not make this assumption, however.

The sad fact in U.S.-China trade is the CEO/Donor Class attack on unions for the past 30 years. It has taken its toll on the American worker in both immigration and trade. That has been facilitated by decreasing the top marginal income tax rates so that when savings are made to labor costs, the CEOs and stockholders actually benefit. When tax rates are high, the government gets the cash so wages are not kept low nor unions busted. As Chinese workers are not allowed to unionize, the working class in both nations become expendable factor in production rather than human beings.

The recent election is an opportunity to begin to undo the damage and our tax reform plan can help. Our prior comments on our standard tax plan still apply, even though that hearing was on agricultural exports. Allow us to repeat them now:

The main short-term impact of our plan on trade is the first point, the value added tax (VAT). This is because exported products would shed the tax, i.e. the tax would be zero rated, at export. Whatever VAT Congress sets is an export subsidy. Seen another way, to not put as much taxation into VAT as possible is to enact an unconstitutional export tax.

The second point, the income and inheritance surtax, has no impact on exports. It is what people pay when they have successfully exported goods and their costs have been otherwise covered by the VAT and the Net Business Receipts Tax/Subtraction VAT. This VAT will fund U.S. military deployments abroad, so it helps make exports safe but is not involved in trade policy other than in protecting the seas.

The third point is about individual retirement savings. As long as such savings are funded through a payroll tax and linked to income, rather than funded by a consumption tax and paid as an average, they will add a small amount to the export cost of products.

The fourth bullet point is tricky. The NBRT/Subtraction VAT could be made either border adjustable, like the VAT, or be included in the price. This tax is designed to benefit the families of workers, either through government services or services provided by employers in lieu of tax. The most important if these would be a \$1000 per month per child refundable tax credit, distributed through payroll rather than during tax time. Such a credit would keep consumption afloat. It would be a bulwark against recession and also (pay attention pro-life movement) abortion.

NBRT services are really part of compensation. While we could run all compensation through the public sector and make it all border adjustable, that would be a mockery of the concept. The tax is designed to pay for needed services. Not including the tax at the border means that services provided to employees, such as a much needed expanded child tax credit – would be forgone. To this we respond, absolutely not – Heaven forbid – over our dead bodies. Just no.

The NBRT can have a huge long-term impact on trade policy, probably much more than trade treaties, if one of the deductions from the tax is purchase of employer voting stock (in equal dollar amounts for each worker).

For too long the mere mention of Personal Retirement Accounts has been like holding a lightning rod in a thunderstorm. Democrats forget that the attack on George W. Bush for doing so had no impact on the 2004 election. Turnout was juice by support for the war in Iraq, the defense of traditional marriage and the non-existence of the response to the Swift Boat Veterans for Truth-speak (the continuation of the Butcher/Tea Party/MAGA/Russia right-wing conspiracy). The 2006 win was because of the bad management of the Iraq War and rampant Republican corruption.

Engaging in real debate rather than obstruction could have given us insured accounts holding employer voting stock voted by union proxies with equal employer tax credits funded on an uncapped payroll or consumption tax, such as the NBRT.

Personal Accounts would not be used for speculative investments or even for unaccountable index fund investments where fund managers ignore the interests of workers. Accounts invested in index funds do not have that feature, although they do serve to support American retirees who because of them have a financial interest in firms utilizing foreign labor, particularly low-wage Chinese labor.

The USA accounts proposed by President Clinton had the same feature, although as a supplement to the Social Security benefit rather than a partial replacement, although this feature would be muted by enactment of value added taxes. The flaw in using foreign investment to make up for lost worker revenue is that eventually foreign workers either radicalize or become consumers and demand their own union rights.

The tendency for consumerism to follow industrialization is why globalization is a poor substitute for expanding the domestic population, as the Center proposes with its expanded Child Tax Credit, which we propose as an offset to the NBRT.

It would be better for all concerned if American workers were already in an ownership position due to repeal of the Taft-Hartley Act prohibitions on concentrated pension fund ownership and the enactment of personal retirement accounts. We can turn the tide for workers and encourage employee-ownership (aka cooperative socialism) now through Democratic means as part of a Green New Deal.

Over a fairly short period of time, much of American industry, if not employee-owned outright (and there are other policies to accelerate this, like ESOP conversion) will give workers enough of a share to greatly impact wages, management hiring and compensation and dealing with overseas subsidiaries and the supply chain – as well as impacting certain legal provisions that limit the fiduciary impact of management decision to improving short-term profitability (at least that is the excuse managers give for not privileging job retention).

Employee-owners will find it in their own interest to give their overseas subsidiaries and their supply chain's employees the same deal that they get as far as employee-ownership plus an equivalent standard of living. The same pay is not necessary, currency markets will adjust once worker standards of living rise.

Over time, this will change the economies of the nations we trade with, as working in employee-owned companies will become the market preference and force other firms to adopt similar policies (in much the same way that, even without a tax benefit for purchasing stock, employee-owned companies that become more democratic or even more socialistic, will force all other employers to adopt similar measures to compete for the best workers and professionals).

China could end its peasant labor system in advance of revolution. Hopefully quick adoption of our suggestions to expand employee-ownership is more likely than revolution in China. If not,

trade wars and rumors of trade wars will always be with us, along with the damage they do to both the financial markets and the real economy.

Eventually, trade will no longer be an issue. Internal company dynamics will replace the need for trade agreements as capitalists lose the ability to pit the interest of one nation's workers against the other's. This approach is also the most effective way to deal with the advance of robotics. If the workers own the robots, wages are swapped for profits with the profits going where they will enhance consumption without such devices as a guaranteed income.

We remind the Committee that in the future we face a crisis in net interest on the debt, both from increased rates and growing principle. This growth will only be feasible until either China or the European Union develop tradable debt instruments backed by income taxation. Currently, we trade the security of our debt for consumer products. Theoretically, some of these funds should make workers who lose their jobs whole – so far it has not. This is another way that higher tax rates and collection (and we are nowhere near the top of the semi-fictitious Laffer Curve) hurt the American workforce.

This is the secret to the ability of the United States to be the world's bond issuer. It is why a trade deficit is not necessarily a bad thing, although the President does not seem to realize this. Indeed, exporting the debt is the essential feature of neo-liberalism, as is the belief that saving more for retirement with tax assisted accounts while shifting jobs overseas can have their slavery pay for our retirements. At some point overseas workers will rebel, so we need incentives to pay down the debt.

The national debt is possible because of progressive income taxation. The liability for repayment, therefore, is a function of that tax. For every dollar you pay in taxes, you owe \$13 in debt. People who pay nothing owe nothing. People who pay tens of thousands of dollars a year owe hundreds of thousands.

The answer is not making the poor pay more or giving them less benefits, either only slows the economy. Rich people must pay more and do it faster. Most workers cannot reliably save, or even eat. Don't look to them to ever pay off the debt. Your children and grandchildren and those of your donors are the ones on the hook unless their parents step up and pay more. How's that for incentive to raise taxes?

As we stated at the outset, the best protection for American workers and American consumer are higher marginal tax rates for the wealthy. This will also end the possibility of a future crisis where the U.S. Treasury cannot continue to roll over its debt into new borrowing.

Thank you for the opportunity to address the committee. We are, of course, available for direct testimony or to answer questions by members and staff.

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